

Message Text

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C O N F I D E N T I A L PEKING 0699

E.O. 11652: GDS

TAGS: ETRD EAGR CH US

SUBJECT: TCK WHEAT SMUT PROBLEMS -- COOK INDUSTRIES

REF: STATE 082949

SUMMARY: OFFICIALS OF COOK INDUSTRIES HAVE REACHED AN IMPASSE WITH CEROILFOOD OVER THE QUESTION OF TCK WHEAT SMUT IN US WHEAT. IN VIEW OF A CHINESE DECISION IN MARCH TO ACCEPT NO SHIPMENTS WHICH HAVE EVEN A TRACE OF TCK AND THE CHINESE BELIEF THAT IT IS NOT POSSIBLE TO COMPLETELY CLEAN THE WHEAT, COOK IS RELUCTANT TO RISK THE POSSIBILITY OF REJECTION OF ANY FUTURE SHIPMENTS. THE INFLEXIBLE CHINESE STANCE IS ATTRIBUTABLE, AT LEAST IN PART, TO PRESSURES OF THE CURRENT POLITICAL CAMPAIGN, AND A KEY CEROILFOOD OFFICIAL INDICATED THAT HE IS UNDER GREAT PRESSURE AND THAT THE MATTER IS OUT OF HIS HANDS. END SUMMARY.

1. EDWARD COOK, PRESIDENT, AND WILLARD SPARKS, EXECUTIVE VICE PRESIDENT OF COOK INDUSTRIES INC CALLED AT USLO APRIL 29 TO APPRISE US OF THEIR DISCUSSIONS, WHICH BEGAN APRIL 24, WITH THE CHINA NATIONAL CEREALS, OILS AND FOODSTUFFS IMPORT AND EXPORT CORPORATION (CEROILFOOD) CONCERNING TCK WHEAT SMUT. THEIR GROUP OF SIX PERSONS INCLUDES PROFESSOR JACK SCHAFER, PLANT PATHOLOGIST FROM WASHINGTON STATE UNIVERSITY, MENTIONED REFTTEL. CONFIDENTIAL

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2. ALTHOUGH TRACES OF TCK WERE FOUND IN ONLY ONE OF THE COOK SHIPMENTS, AND IN THAT CASE THE CHINESE ACCEPTED IT, THE COMPANY IS CONCERNED OVER THE IMPLICATIONS OF POSSIBLE FUTURE REJECTIONS. ACCORDING TO THE COOK OFFICIALS, THE CHINESE DECIDED IN MARCH TO ACCEPT NO FUTURE SHIPMENTS OF WHEAT WHICH MIGHT HAVE EVEN MINOR TRACES OF TCK. THE EXCEPTION OF THE ONE INFECTED COOK SHIPMENT WAS COUPLED WITH A WARNING ABOUT THE FUTURE. COOK, WHICH HAS SHIPPED CHINA ABOUT 650,000 TONS, HAS SOME 800,000 TONS REMAINING UNDER THE PRESENT CONTRACT, AND IS RELUCTANT TO MAKE FURTHER SHIPMENTS. REJECTIONS, THE OFFICIALS SAID, WOULD COST THE COMPANY ABOUT ONE AND ONE-HALF MILLION DOLLARS PER SHIPMENT. IN FACT, COOK HAS JUST DIVERTED A SHIP FROM THE US TO ANOTHER DESTINATION BECAUSE, IN APPLYING THE SAME RIGOROUS STANDARDS THE CHINESE NOW USE, THE COMPANY FOUND A SMALL AMOUNT OF SMUT ABOARD.

3. COOK AND SPARKS SAID THEIR DISCUSSIONS WITH CEROILFOOD HAVE REACHED AN IMPASSE. THE CHINESE ARE ASKING FOR FULFILLMENT OF THE CONTRACT AND HAVE SHOWN ABSOLUTELY NO DISPOSITION TO MODIFY THE RIGID STANDARD FOR SMUT INFESTATION THEY HAVE ADOPTED. THE COOK OFFICIALS POINTED OUT THAT THE CHINESE STANDARD ALLOWS NO TOLERANCE, THAT IT DOES NOT PROVIDE FOR DIFFERENT RESULTS FROM US AND CHINESE TESTS WHICH CAN EASILY OCCUR GIVEN THE SIZE OF EACH SHIPMENT, AND THAT THE CHINESE DO NOT RECOGNIZE THE POSSIBILITY THAT SMUT FOUND IN THEIR TESTS MIGHT COME FROM THE BAGS WHICH THEY USE TO TAKE THE SAMPLES OR FROM THEIR OWN DOCK FACILITIES. WITH REGARD TO THIS LAST POINT, THE COOK TEAM VISITED THE SHANGHAI PORT AND THOUGHT THAT FACILITIES FOR HANDLING GRAIN WERE DIRTY AS WELL AS INEFFICIENT. IN ADDITION, THE CHINESE DO NOT BELIEVE THAT IT IS ECONOMICALLY OR EVEN TECHNICALLY POSSIBLE TO COMPLETELY CLEAN AFFECTED WHEAT OF ALL TCK SPORES.

4. THE COOK OFFICIALS SPECULATE THAT THE CURRENT POLITICAL CAMPAIGN IS AN IMPORTANT FACTOR BEHIND THE INFLEXIBLE CHINESE STANCE. IN A PRIVATE CONVERSATION IN ENGLISH WITH MR. SHIH, THE SENIOR CEROILFOOD OFFICIAL ON THESE GRAIN MATTERS, SHIH TOLD MR. COOK THAT THE MATTER IS "OUT OF CONFIDENTIAL

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HIS HANDS," THAT HE RECEIVES CALLS EVEN AT NIGHT FROM "END-USERS" WHO ARE UNHAPPY ABOUT SMUT INFECTED US WHEAT AND THAT "SOME PEOPLE" SAY THE US IS INTENTIONALLY SHIPPING BAD WHEAT TO CHINA. IN THIS CONVERSATION, MR. COOK SAID, SHIH WAS NERVOUS AND UPSET. SHIH ALSO MENTIONED PROBLEMS WITH SHIPMENTS OF US CORN WHICH DOCK WORKERS CONSIDERED SO DIRTY AND DUSTY THAT THEY WERE RELUCTANT TO HANDLE THEM. DURING THEIR VISIT TO SHANGHAI, THE

COOK OFFICIALS SAID THEY WERE GIVEN FIRM LECTURES ABOUT WHEAT SMUT BY LOCAL CEROILFOOD AND DOCK OFFICIALS.

5. THE COOK OFFICIALS ALSO BELIEVE THAT MUCH OF THE PRESENT PROBLEM STEMS FROM THE FAILURE OF DREYFUS AND CARGILL TO LIVE UP TO THEIR AGREEMENT WITH THE CHINESE MADE AT THE TIME OF DR. JAMES HOFFMAN'S VISIT TO CHINA LAST OCTOBER. AT THAT TIME, THE SHIPPERS AGREED NOT TO SEND CHINA WHEAT FROM THE WEST COAST AND THE CHINESE AGREED TO TREAT THE FEW AFFECTED SHIPMENTS. BUT SUBSEQUENT SHIPMENTS, THE CHINESE TOLD COOK, WERE INCREASINGLY AFFECTED WITH TCK AND THIS LED TO THE MARCH DECISION. THE COOK OFFICIALS SAID THEY UNDERSTAND THAT A TOTAL OF 17 SHIPS HAVE ARRIVED IN CHINA WITH TCK AND MOST OF THESE LEFT THE US AFTER THE HOFFMAN VISIT; MOREOVER, 14 OF THESE 17 SHIPMENTS WERE FROM THE US WEST COAST.

6. IN THEIR MEETING WITH CEROILFOOD ON APRIL 28, THE COOK OFFICIALS TOLD THE CHINESE THEY WISH TO FULFILL THE CONTRACT BUT THAT UNDER PRESENT CONDITIONS IT IS DIFFICULT FOR THE COMPANY TO MAKE FURTHER SHIPMENTS. THEY ALSO POINTED OUT THAT WHEN THE CONTRACT WAS SIGNED IT WAS NOT CLEAR THAT THE CHINESE WOULD EMPLOY MICROSCOPIC TESTING STANDARDS AS OPPOSED TO THE USUAL SIGHT AND SMELL TESTS THAT ARE USED IN THE US. THEY SAID THE COMPANY WOULD BE WILLING TO TAKE THE RISKS OF REJECTION OR TO PROVIDE WHEAT FROM OTHER SOURCES, BUT ONLY AT A SUFFICIENTLY HIGHER PRICE. ALTERNATIVELY, COOK IS PREPARED TO NEGOTIATE CANCELLATION OF THE CURRENT CONTRACT. THE CHINESE REPLIED ONLY TO THE EFFECT THAT THE CONTRACT MUST BE FULFILLED AND THAT COOK SHOULD BE ABLE TO FIND SOME WAY TO PROVIDE CHINA WITH TCK FREE WHEAT AS IS STIPULATED IN THE CONTRACT.

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7. MEETINGS WITH THE CHINESE ARE CONTINUING, BUT THE COOK OFFICIALS EXPECT TO LEAVE PEKING BY THE END OF THE WEEK. THEY PROMISED TO KEEP USLO INFORMED OF FURTHER DEVELOPMENTS.

8. ACCORDING TO THE COOK OFFICIALS, REPRESENTATIVES OF THE ARGENTINE COMPANY "BUNGE" ARE ALSO NOW IN PEKING TALKING TO THE CHINESE ABOUT TCK IN SHIPMENTS OF US WHEAT. BUNGE, THEY SAID, SENT 11 SHIPS OF US WHEAT TO CHINA BEFORE THE MARCH DECISION; TCK WAS FOUND ON TWO OF THESE AND THE CHINESE AGREED TO WASH THE CARGOES. BUNGE IS CONCERNED BECAUSE IT HAS AN OUTSTANDING CONTRACT WITH THE CHINESE FOR SHIPMENTS OF US WHEAT WHICH ARE TO BEGIN THIS JULY.
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